Hawaiian Electric Company, Inc. • PO Box 2750 • Honolulu, HI 96840-0001

Darcy L. Endo-Omoto
Vice President
Government & Community Affairs

June 17, 2009

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
Kekuanaoa Building, First Floor
465 South King Street
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 2008-0083
<u>HECO 2009 Test Year Rate Case – PV Host Program</u>

On May 15, 2009, Hawaiian Electric Company, Inc. ("Hawaiian Electric" or "Company"), the Division of Consumer Advocacy and the Department of Defense (collectively the "Parties") filed their Stipulated Settlement Letter for Hawaiian Electric's 2009 test year rate case. On May 18, 2009, the Company filed its Statement of Probable Entitlement. Since that time, the Company has discovered a textual discrepancy in Exhibit 1 to that letter and in the Statement of Probable Entitlement. Enclosed are corrections that state that the Parties agreed that PV Host Program costs should be removed from the 2009 test year and recovered through the REIP/CEI Surcharge, rather than amortized over two years.[1] The Company is providing both clean copies and copies in track changes.

These textual corrections do <u>not</u> change the proposed interim increase amount of $79,811,000 as reflected in Hawaiian Electric's Statement of Probable Entitlement filed on May 18, 2009. The Company correctly removed the PV Host Program costs from the revenue requirement run in Exhibit 1 to the Statement of Probable Entitlement.

Also enclosed are the revised pages 4 and 5 of HECO T-9, Attachment 2, of the Stipulated Settlement Letter. These pages provided references to certain attachments but not the information request responses that provided the attachments. By including this information, the revised pages provide a complete audit trail. The revised references are

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[1] The corrections appear on pages 20 and 21 of Exhibit 1 of the Stipulated Settlement Letter and on pages 6 and 7 of the Statement of Probable Entitlement. Page 31 of Exhibit 1 of the Stipulated Settlement Letter correctly describes the Parties' agreement that the PV Hosts Program costs should be recovered through the REIP/CEI Surcharge.

highlighted for easy identification. The revised pages have no impact on the settlement amount.

The Division of Consumer Advocacy and the Department of Defense do not object to the corrections and revisions described above.

The Company apologizes for any inconvenience this may have caused. If there are any questions, please call Dean K. Matsuura at 543-4622.

Very truly yours,

(for) Darcy L. Endo-Omoto
Vice President
Government & Community Affairs

Enclosures

cc: Division of Consumer Advocacy
Dr. Khojasteh Davoodi
James N. McCormick, Esq.
Utilitech, Inc.

Stipulated Settlement Letter

Exhibit 1, pages 20 and 21

(Filed May 15, 2009.)

In settlement discussions, HECO maintained that the costs of obtaining approval for the AMI and PV Host projects and participating in the proceedings (similar to the costs incurred for the FIT proceeding) are normal, on-going costs of doing business as a regulated utility. HECO pointed out that the level of participation in Commission proceedings has increased in 2009, due in significant part to the initiation of proceedings as a result of the Energy Agreement, but anticipated that the level of participation was likely to remain high over the next year as well. To mitigate the impact of the costs of participating in the proceedings on test year revenue requirements and for purposes of reaching a global settlement, HECO proposed to amortize the identified test year outside services costs for the two AMI and PV Host project proceedings over two years. This was the same treatment that the Company proposed for the costs of a pricing consultant for the decoupling docket, as discussed in the rate case update, HECO T-11, pages 5 to 6, and the feed-in tariff ("FIT") consultant costs (see CA-101, Schedule C-23, page 1, and discussion below of C-23).

The amortization period is based on the time period between the 2009 test year rate case and HECO's next rate case anticipated to be based on a 2011 test year, as proposed by the HECO Companies in the decoupling proceeding, Docket No. 2008-0274. The outside services costs for PUC proceedings and the agreement of the Parties for settlement purposes is as follows:

1) PV Host Program: In the Rate Case Update, HECO T-7, page 45, the Company included $200,000 of outside services costs in the test year for the development of the PV Host Program. In its response to CA-IR-296, the Company stated that HECO's share of the PV Host Program outside services costs amounted to $160,000, 80% of the $200,000. As agreed by the Parties, $40,000 was removed for the MECO and HELCO share of costs and the remaining $160,000 should be recovered through the REIP/CEI Surcharge for a total reduction of $200,000 to the test year. See pages 30-31 of Exhibit 1 of this Stipulated Settlement Letter.

2) AMI legal, regulatory, and outside consulting costs: The test year requirement for legal, regulatory, and outside consulting costs for the AMI project of $507,000 is described in direct testimony, HECO T-8, pages 52 and 54, updated in Rate Case Update, HECO T-8, page 5, and further described in the Company's response to CA-IR-178, page 4. For settlement purposes, the Parties agreed that, the AMI legal, regulatory, and outside consulting costs are to be amortized over two years, for a reduction of $253,000 ($507,000/ 2).

3) FIT Consultant Costs: In the Rate Case Update, HECO T-11, page 5, the Company added $115,000 ($230,000 ÷ 2 years amortization) to support the Companies' effort in its participation in Docket No. 2008-0273, the FIT Investigative docket. However, HECO's portion of these costs is $92,000 ($230,000 x 80%=$184,000 ÷ 2 years) or 80% of the total amount (see the Company's response to CA-IR-343, pages 4 to 5). The Consumer Advocate proposed to reduce the FIT consultant costs for the portion of the costs for HELCO and MECO (CA T-3 page 90). The Company has accepted

the Consumer Advocate's proposal of a reduction of $23,000 to the test year (CA-101, Schedule C-23). The DOD has not objected to the resolution of this issue.

The total amount of the proposed adjustments agreed to by the Parties is a reduction of $476,000 to the test year for outside services costs for PUC proceedings as summarized below:

• PV Host Program – HECO only – REIP/CEI Surcharge Recovery	$160,000
• PV Host Program – MECO & HELCO Costs Removed	$40,000
• AMI Legal & Regulatory – amortized over 2 years	$253,000
• FIT Legal & Regulatory – MECO & HELCO Costs Removed	$23,000
• Total Reduction	$476,000

b. HCEI-Related R&D Costs

In settlement discussions the Consumer Advocate and Company agreed that both the HCEI Implementation Studies (aka "Big Wind Studies") and the Oahu Electric System Analysis (CA-101, Schedule C-4, lines 1 and 6) should be recovered through the REIP/CEI Surcharge as proposed in Docket No. 2007-0416[4]. Thus, the test year is reduced by $2,220,000 for the Big Wind Studies and $677,000 for the Oahu Electric System Analysis study.

However, HECO asserts that R&D is an on-going expense year after year and that it should be able to recover in base rates an amount that is commensurate with total expenses in past years.[5] As a result, the Parties have agreed that for purposes of settlement, the R&D costs of $50,000 for the biofuel agriculture crop research expenses and $649,000 for the biofuel co-firing project expenses remain in the test year for recovery in the Company's base rates.

For settlement purposes, the Consumer Advocate concurred with HECO's proposed $2,220,000 reduction and HECO concurred with the Consumer Advocate's proposed $677,000 reduction as noted above. However, the Consumer Advocate observed that the $611,000 of AMI R&D expense in the A&G Account 930.2 that is discussed above is comprised of $488,000 for outside services and $123,000 for Tower Gateway Base ("TGB") Station lease rental. For settlement purposes, the Consumer Advocate proposed that the consulting costs of $488,000 should also be amortized over a two year period with the total TGB lease remaining in the test year O&M expense. This proposal is also accepted by the Company for settlement purposes. The DOD has not objected to the resolution of this issue. More discussion of the R&D expenses proposed to be removed

[4] See discussion in Rate Case Update, HECO T-7, pages 2 to 3.

[5] The Energy Agreement includes references to much of the Hawaiian Electric Companies' on-going renewable energy and energy efficiency efforts (such as the Renewable Energy RFP), as well as new commitments made by the Companies in the Agreement. In recent years, HECO's R&D efforts have been targeted at enhancing its ability to add renewable energy to its system. For example, the biofuel testing included in HECO's 2009 expenses is the latest phase of HECO's R&D biofuel testing activities, which were discussed in the 2007 test year rate case (as were HECO's R&D activities that related to AMI, and its efforts to support local agriculture related biofuels).

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The amortization period is based on the time period between the 2009 test year rate case and HECO's next rate case anticipated to be based on a 2011 test year, as proposed by the HECO Companies in the decoupling proceeding, Docket No. 2008-0274. The outside services costs for PUC proceedings and the agreement of the Parties for settlement purposes is as follows:

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However, HECO asserts that R&D is an on-going expense year after year and that it should be able to recover in base rates an amount that is commensurate with total expenses in past years.[5] As a result, the Parties have agreed that for purposes of settlement, the R&D costs of $50,000 for the biofuel agriculture crop research expenses and $649,000 for the biofuel co-firing project expenses remain in the test year for recovery in the Company's base rates.

For settlement purposes, the Consumer Advocate concurred with HECO's proposed $2,220,000 reduction and HECO concurred with the Consumer Advocate's proposed $677,000 reduction as noted above. However, the Consumer Advocate observed that the $611,000 of AMI R&D expense in the A&G Account 930.2 that is discussed above is comprised of $488,000 for outside services and $123,000 for Tower Gateway Base ("TGB") Station lease rental. For settlement purposes, the Consumer Advocate proposed that the consulting costs of $488,000 should also be amortized over a two year period with the total TGB lease remaining in the test year O&M expense. This proposal is also accepted by the Company for settlement purposes. The DOD has not objected to the resolution of this issue. More discussion of the R&D expenses proposed to be removed

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[5] The Energy Agreement includes references to much of the Hawaiian Electric Companies' on-going renewable energy and energy efficiency efforts (such as the Renewable Energy RFP), as well as new commitments made by the Companies in the Agreement. In recent years, HECO's R&D efforts have been targeted at enhancing its ability to add renewable energy to its system. For example, the biofuel testing included in HECO's 2009 expenses is the latest phase of HECO's R&D biofuel testing activities, which were discussed in the 2007 test year rate case (as were HECO's R&D activities that related to AMI, and its efforts to support local agriculture related biofuels).

Statement of Probable Entitlement

Pages 6 and 7

(Filed May 18, 2009.)

decision in Docket No. 2007-0416.[7] The Company also stated that if it does not recover the cost of the HCEI Implementation Studies through the REIP/CEI Surcharge, it should be allowed to recover this cost through base rates approved in this rate case. (See Rate Case Update, HECO T-1, pages 11 to 15.)

In settlement discussions the Consumer Advocate and Company agreed that the HCEI Implementation Studies (aka "Big Wind Studies"), the PV Host Program, and the Oahu Electric System Analysis included in R&D expenses (CA-101, Schedule C-4, lines 1, 2 and 6) should be recovered through the REIP/CEI Surcharge as proposed in Docket No. 2007-0416.[8] Thus, the test year is reduced by $2,220,000 for the Big Wind Studies, $200,000 for the PV Host Program and $677,000 for the Oahu Electric System Analysis study.

Certain R&D expenses for 2009 were left in revenue requirements, since R&D is an on-going expense year after year and the Company should be able to recover a reasonable amount in base rates for such expenses.[9] As a result, the Parties agreed that for purposes of settlement, the R&D costs of $50,000 for the biofuel agriculture crop research expenses and $649,000 for the biofuel co-firing project expenses remain in the test year for recovery in the Company's base rates.

For settlement purposes, the Consumer Advocate also proposed that certain advanced metering infrastructure R&D consulting costs of $488,000 be amortized over a two year period, which was accepted by the Company for settlement purposes.

In addition, the Parties agreed to normalize the outside services' costs related to the costs of participating in Commission initiated proceedings or obtaining Commission approval (e.g., legal and regulatory support services) for certain initiatives identified in the Energy Agreement. These adjustments are summarized below:

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[7] Section 29 of the HCEI Agreement called for a Clean Energy Infrastructure ("CEI") Surcharge. The CEI Surcharge is equivalent to the REIP Surcharge that the HECO Companies proposed in Docket No. 2007-0416. On November 28, 2009, the HECO Companies and the Consumer Advocate filed a letter agreeing that the REIP Surcharge proposed in Docket No. 2007-0416 is substantially similar to the CEI Surcharge and that the REIP Surcharge satisfies the HCEI Agreement provision that the implementation procedure of the CEIS recovery mechanism be submitted for Commission approval by November 30, 2008. Because HECO considers the REIP and CEI surcharges to be one and the same, this document refers to this surcharge as the "REIP/CEI Surcharge."

[8] See discussion in Rate Case Update, HECO T-7, pages 2 to 3.

[9] In recent years, HECO's R&D efforts have been targeted at enhancing its ability to add renewable energy to its system. For example, the biofuel testing included in HECO's 2009 expenses is the latest phase of HECO's R&D biofuel testing activities, which were discussed in the 2007 test year rate case (as were HECO's R&D activities that related to AMI, and its efforts to support local agriculture related biofuels).

- AMI Legal & Regulatory – amortized over 2 years[10] $253,000
- FIT Legal & Regulatory – MECO & HELCO Costs Removed $23,000
- Total Reduction $276,000

Average Rate Base

As part of the settlement agreement, the Parties have agreed to the use of an average rate base for purposes of the interim and final revenue requirements in this rate case, and HECO has agreed to forego the Campbell Industrial Park ("CIP") Combustion Turbine Unit 1 ("CT-1") step increase that it requested in its application.[11]

Sales Decoupling

In its Rate Case Update, the Company proposed a revenue decoupling mechanism to be effective upon issuance of an interim decision and order in the HECO 2009 rate case. HECO

[10] The amortization period is based on the time period between the 2009 test year rate case and HECO's next rate case anticipated to be based on a 2011 test year, as proposed by the HECO Companies in the decoupling proceeding, Docket No. 2008-0274.

[11] HECO's revenue requirements in its application were based on including the "full" cost of CIP CT-1 (as estimated at the time of the application). HECO also proposed an interim step increase that did not include the CIP CT-1 costs, and a later step increase for CIP CT-1 proposed a step increase equal to the difference between the revenue requirement reflecting the full annualized cost of the CIP CT-1 (with the net investment of the CIP CT-1 in both the beginning and end of test year balances) and the revenue requirement exclusive of the cost of the CIP CT-1. The Company requested that the CIP CT-1 step increase become effective on the in-service date of the new unit, which is scheduled for July 31, 2009 (HECO-101, page 4). The Company further stated that, if the Commission did not approve the CIP CT-1 step increase, the interim increase (and effectively the final increase) should be based on the "base case" which includes the 2009 CIP CT-1 plant additions on an average basis (net of deferred income taxes) in the end of test year rate base balance but not in the beginning of test year rate base balance (HECO-101, p. 3, footnote 2). The Consumer Advocate and the DOD opposed inclusion of the "full" cost of CIP CT-1 in revenue requirements, and proposed that a fully average test year be used.

Based on the joint decoupling proposal of the Company and the Consumer Advocate in the decoupling docket, which incorporates a RAM rate base adjustment in 2010 that includes actual year-end 2009 plant balances (as well as conservatively estimated plant additions in 2010), HECO (as part of the global settlement agreement) agreed to the use of the fully average test year, without a separate CIP CT-1 Step Increase or annualized ratemaking treatment of CIP CT-1 costs.

decision in Docket No. 2007-0416.[7] The Company also stated that if it does not recover the cost of the HCEI Implementation Studies through the REIP/CEI Surcharge, it should be allowed to recover this cost through base rates approved in this rate case. (See Rate Case Update, HECO T-1, pages 11 to 15.)

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Stipulated Settlement Letter

HECO T-9 Attachment 2, pages 4 and 5

(Filed May 15, 2009.)

CIS EXPENSES TO REMOVE FROM TEST YEAR BY NARUC ACCOUNT

Summary of Changes to the HECO 2009 Test Year Due to the Delay in the Customer Information System ("CIS") In-Service Date		NARUC	Labor	Non-Labor	Total	Source
PROJECT EXPENSES:						
1 Reversal of Project Expenses - Revised HECO-907 (line 29) (see response to CA-IR-323, Attachment 1A)	($1,506,519)	506	$ (8,410)	$ -	$ (8,410)	1-Detail
		581	$ (84,583)	$ -	$ (84,583)	
		587	$ (109,691)	$ -	$ (109,691)	
		588	$ (51,029)	$ -	$ (51,029)	
		903	$ (409,580)	$ (520,238)	$ (929,818)	
		910	$ (46,973)	$ -	$ (46,973)	
		920	$ (41,006)	$ -	$ (41,006)	
		921	$ (5,400)	$ (12,982)	$ (18,382)	
		922	$ -	$ (58,565)	$ (58,565)	
		925	$ (318)	$ -	$ (318)	
		926 020	$ -	$ (159,764)	$ (159,764)	
		Total	$ (754,989)	$ (751,530)	$ (1,506,519)	
Reversal of Amortization - Revised HECO-907 (line 30) (see response to CA-IR-323, Attachment 1A)	($978,941)	903	$ -	$ (978,941)	$ (978,941)	
2 Expense reduction due to employees remaining on the CIS development team for the months of June through December (recorded to Deferred Expenses)						
Productive Expense (see response to CA-IR-323, Attachment 1B)	($293,288)	902	$ (13,904)	$ -	$ (13,904)	2-Detail
		903	$ (279,384)	$ -	$ (279,384)	
		Total	$ (293,288)	$ -	$ (293,288)	
Non-Productive Expense (see response to CA-IR-323, Attachment 1B)	($42,990)	902	$ (2,015)	$ -	$ (2,015)	
		903	$ (40,975)	$ -	$ (40,975)	
		Total	$ (42,990)	$ -	$ (42,990)	
Emp Benefit (see response to CA-IR-323, Attachment 1B).	($93,116)	926,020	$ -	$ (93,116)	$ (93,116)	
Total Project Expenses	($2,912,854)		$ (1,091,267)	$ (1,821,588)	$ (2,912,854)	
NON-PROJECT EXPENSES (Including new Bill Print, IVR, IWR systems/processes)						
1 Reversal of Post Go-Live Non-Project expenses (see response to CA-IR-323, Attachment 2, line 14a, "Post Go-Live Adj." column)	($1,353,565)	903	$ -	$ (1,353,565)	$ (1,353,565)	3-Detail
2 Additional expenses for Standard Register Forms (see response to CA-IR-323, Attachment 2, line 10a, "Post Go-Live Adj." column)	$60,468	903	$ -	$ 60,468	$ 60,468	3-Detail
3 Net Reduction of ITS Costs (see Response to CA-IR-323, Attachment 3)	($458,094)	500020	$ -	$ (4,977)	$ (4,977)	4-Detail
		501020	$ -	$ (1,750)	$ (1,750)	
		501410	$ -	$ (356)	$ (356)	
		502010	$ -	$ (5,278)	$ (5,278)	
		502020	$ -	$ (6,884)	$ (6,884)	
		502030	$ -	$ (9,545)	$ (9,545)	
		505030	$ -	$ (684)	$ (684)	
		506010	$ -	$ (2,434)	$ (2,434)	
		506020	$ -	$ (14,522)	$ (14,522)	
		512030	$ -	$ (1,039)	$ (1,039)	
		513030	$ -	$ (629)	$ (629)	
		514020	$ -	$ (21,388)	$ (21,388)	
		514030	$ -	$ (3,309)	$ (3,309)	
		549	$ -	$ (1,778)	$ (1,778)	
		561	$ -	$ (55)	$ (55)	
		562	$ -	$ (191)	$ (191)	
		563	$ -	$ (164)	$ (164)	
		566	$ -	$ (7,138)	$ (7,138)	
		570	$ -	$ (109)	$ (109)	
		571	$ -	$ (246)	$ (246)	
		572	$ -	$ -	$ -	
		581	$ -	$ (9,599)	$ (9,599)	
		582	$ -	$ (273)	$ (273)	
		583	$ -	$ (246)	$ (246)	
		584	$ -	$ (273)	$ (273)	
		586	$ -	$ (4,348)	$ (4,348)	
		588	$ -	$ (41,187)	$ (41,187)	
		592	$ -	$ (137)	$ (137)	
		593	$ -	$ (410)	$ (410)	
		594	$ -	$ (410)	$ (410)	
		598	$ -	$ (5,059)	$ (5,059)	
		901	$ -	$ (58,307)	$ (58,307)	
		902	$ -	$ (2,051)	$ (2,051)	
		903	$ -	$ (9,218)	$ (9,218)	
		910	$ -	$ (16,464)	$ (16,464)	
		921	$ -	$ (212,560)	$ (212,560)	
		924	$ -	$ (2,133)	$ (2,133)	
		925	$ -	$ (8,040)	$ (8,040)	
		926000	$ -	$ (547)	$ (547)	
		926010	$ -	$ (2,108)	$ (2,108)	
		9302	$ -	$ (2,270)	$ (2,270)	
		Total	$ -	$ (458,094)	$ (458,094)	

4 Reversal of labor expenses for 4 temporary meter readers included in Update									
See response to CA-IR-396, part b and Attachment 4)	($235,200)	902	$	-	$	(235,200)	$	(235,200)	5- Detail
Total Non-Project Expenses	($1,986,391)		$	-	$	(1,986,391)	$	(1,986,391)	
ADD BACK FOR LABOR EXPENSES:									
1 (see response to CA-IR-323, Attachment 4, p 3, column EE150, total)	$280,658	183	$	205	$	-	$	205	[redacted]
		566	$	26,416	$	-	$	26,416	
		586	$	7,582	$	-	$	7,582	
		587	$	26,991	$	-	$	26,991	
		588	$	30,675	$	-	$	30,675	
		598	$	12,766	$	-	$	12,766	
		902	$	14,468	$	-	$	14,468	
		903	$	69,893	$	-	$	69,893	
		909	$	1,924	$	-	$	1,924	
		910	$	34,848	$	-	$	34,848	
		920	$	27,057	$	-	$	27,057	
		184050	$	331	$	-	$	331	
		184060	$	1,979	$		$	1,979	
		581/581	$	25,524	$	-	$	25,524	
		Total	$	280,658	$	-	$	280,658	
(see response to CA-IR-323, Attachment 4, p.3, column NPW, total)	$41,559	183	$	26	$	-	$	26	
		566	$	3,320	$	-	$	3,320	
		586	$	1,080	$	-	$	1,080	
		587	$	3,960	$	-	$	3,960	
		588	$	3,920	$	-	$	3,920	
		598	$	1,680	$	-	$	1,680	
		902	$	2,660	$	-	$	2,660	
		903	$	12,780	$	-	$	12,780	
		909	$	160	$	-	$	160	6- Detail
		910	$	4,960	$	-	$	4,960	
		920	$	3,720	$	-	$	3,720	
		184050	$	69	$	-	$	69	
		184060	$	344	$	-	$	344	
		581/581	$	2,880	$	-	$	2,880	
		Total	$	41,559	$	-	$	41,559	
(see response to CA-IR-323, Attachment 4, p 3, sum of totals in columns Corp Adm,Ben,PS,ED, and CID.	$287,193	183	$	67	$	-	$	67	
		566	$	25,259	$	-	$	25,259	
		586	$	-	$	-	$	-	
		587	$	71,580	$	-	$	71,580	
		588	$	29,823	$	-	$	29,823	
		598	$	12,781	$	-	$	12,781	
		902	$	-	$	-	$	-	
		903	$	-	$	-	$	-	
		909	$	-	$	-	$	-	
		910	$	-	$	-	$	-	
		920	$	-	$	-	$	-	
		922	$	-	$	32,998	$	32,998	
		926 020	$	-	$	90,017	$	90,017	
		184050	$	141	$	-	$	141	
		184060	$	2,616	$	-	$	2,616	
		581/581	$	21,911	$	-	$	21,911	
		Total	$	164,178	$	123,015	$	287,193	
Total add back to test year	$609,410		$	486,395	$	123,015	$	609,410	
TOTAL NET CHANGE TO TEST YEAR EXPENSES	($4,289,835)		$	(604,872)	$	(3,684,963)	$	(4,289,835)	